

## MEMORANDUM



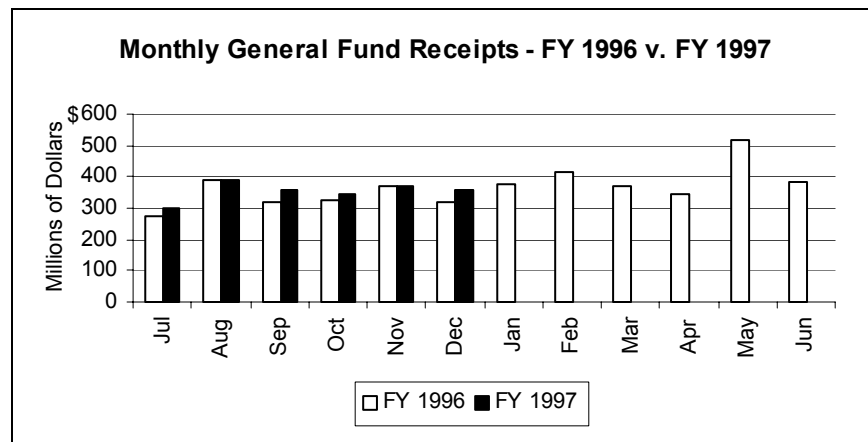
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: January 2, 1997

### General Fund Receipts Through December 31, 1996

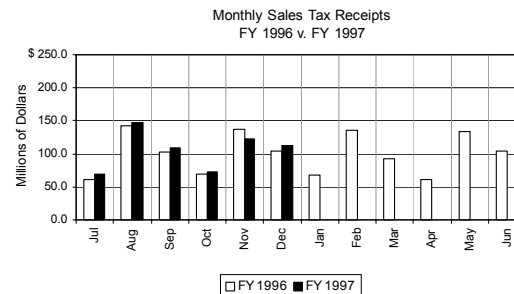
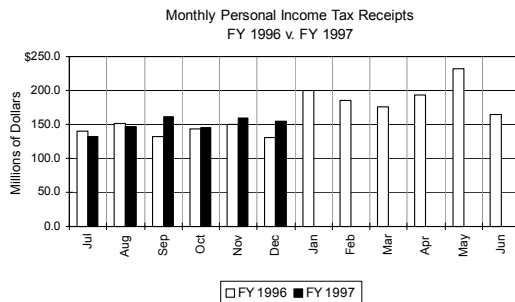
The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can also be compared to the latest FY 1997 estimate (\$4.627 billion) set by the Revenue Estimating Conference (REC) on November 21, 1996. The REC agreed to leave the total General Fund receipts estimate unchanged from the September meeting. The estimate represents an increase of \$220.4 million (5.0%) compared to FY 1996. The Conference also retained the FY 1998 estimate of \$4.835 billion, an increase of \$208.0 million (4.5%) compared to the FY 1997 estimate.



Total year-to-date General Fund receipts for the first half of FY 1997 increased 6.2% compared to FY 1996. Tax receipts showed an increase of 6.0%. Personal income tax receipts increased 6.5%. Sales tax receipts were 2.4% higher than the previous fiscal year. Use tax increased 8.8% compared to FY 1996, and corporate income tax receipts showed a 14.9% increase. Receipts collected in the month of December totaled 12.2% more than December 1996. The first half of the current year has had two more processing days than the same period in FY 1996, and the month of December had an extra processing day compared to December 1996.

**Gross personal income tax** receipts for December were \$25.2 million (19.3%) more than December 1996. Approximately \$18.4 million (73.0%) of the increase was due to a timing factor associated with estimate payments. Withholding receipts in December were 4.3% greater than the same

month in FY 1996. On an adjusted basis, income tax receipts through December 1996 were approximately 4.2% higher than the first half of FY 1996. The November REC lowered the individual income tax estimate by \$14.1 million based on performance through November 21. The revised estimate of \$2.109 billion represents a projected increase of 5.4% compared to FY 1996. Individual income tax receipts for the remainder of the year need to grow 4.6% to reach the revised estimate. On an adjusted basis, receipts for the remainder of the year need to grow 6.3%.



**Sales tax** receipts in December increased 8.0% compared to December 1995. Virtually all of the sales tax revenue received in the month of December was attributable to monthly and semi-monthly filers. A portion of the receipts were attributable to holiday shopping, but most of these seasonal effects won't be known until next month. As much as one-half of the increase may be due to processing activity, which exceeded last year's level by more than 4.0%. The lingering affects of the local option reconciliation payment described in last month's letter are still being reflected in the year-to-date figure. This payment, paid from the quarterly receipts account, was approximately \$15.0 million higher than last year's payment, and is being viewed as a one-time decrease. The year-to-date figure is expected to grow as the effects of the payment are spread throughout the remainder of the year. The REC lowered the FY 1997 sales tax estimate slightly to \$1.275 billion. Sales tax receipts for the remainder of the year will need to grow 7.9% to reach the revised estimate.

**Corporate income tax** receipts in December were \$6.3 million (34.3%) greater than December 1995. Year-to-date receipts exceeded FY 1996 levels by \$17.2 million (14.9%). The current REC estimate of \$294.4 million represents an increase of 6.0% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to simply keep pace with last year's level.

**Inheritance tax** receipts continue to exceed all expectations. Through December, inheritance tax receipts were 19.3% higher than the same period in FY 1996. For the month of December, receipts were 24.9% greater than December 1995. The November REC revised the inheritance tax estimate upward by \$7.0 million to \$108.0 million, an increase of 12.6% compared to FY 1996. Receipts for the last six months need to grow by 6.3% to reach the revised estimate.

**Franchise tax** receipts through the first six months totaled \$15.9 million, an increase of \$3.6 million (29.6%) compared to actual FY 1996 receipts. Prior to the fourth quarter of FY 1996, there was little evidence that legislation from the 1995 Legislative Session was successful in recovering lost revenues. However, receipts during the last quarter of FY 1996 and the first quarter of FY 1997, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise tax receipts through the first half of FY 1997 provide additional evidence that the State is recovering some of the revenues that were being lost over the last few years. All of the growth projected for the year has already been received. Thus, franchise tax receipts need only keep pace with last year's activity to reach the REC estimate of \$30.0 million.

**Racing and gaming receipts** in December increased 42.7% compared to December 1995. Receipts through the first six months were 27.0% higher than the same period in FY 1996. In compliance with HF 2421 (Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, the Department of Revenue and Finance transferred \$46.1 million from racing and gaming receipts to the Rebuild Iowa Infrastructure Fund. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. The November REC anticipated total racing and gaming receipts to reach \$113.5 million in FY 1997, which is unchanged from the September estimate. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. The transfer is expected to increase to \$58.1 million in FY 1998.

As an outgrowth of HF 2421, total General Fund receipts growth of \$127.7 million through December includes \$12.1 million from racing and gaming receipts that will not be there at year's end. Racing and gaming receipts are expected to cap out at the \$60.0 million mark sometime in January. Thus, adjusted for this factor, total General Fund receipts growth for the first six months of FY 1997 would be 5.5% rather than 6.2%.

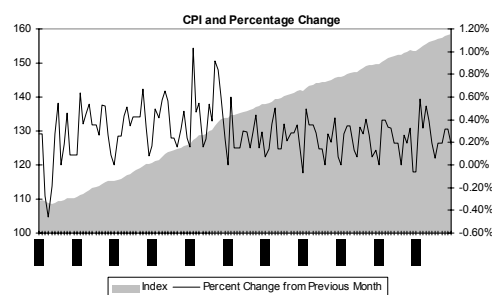
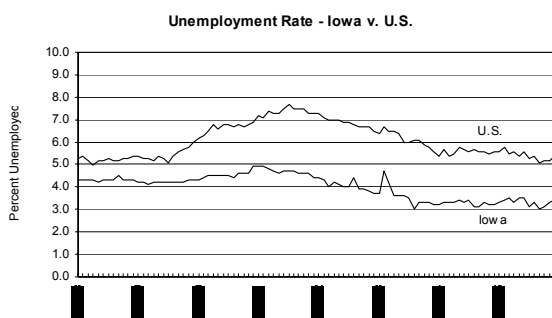
### Receipts Compared to REC Estimate

The November REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first six months was exceeded by approximately \$23.8 million (unadjusted for any timing factors). Adjusted for the timing factors discussed in this letter, receipts through December exceeded last year's level by 5.1%.

### Status of the Economy

The seasonally adjusted percent unemployed for the State increased one-tenth of a point to 3.4% in November. The unemployment rate a year ago was 3.2%. The U.S. unemployment rate increased two-tenths of a point to 5.4% in November. The U.S. rate in November 1995 was 5.6%.

Consumer prices in November increased approximately 0.2%. The Consumer Price Index (CPI) through November 1996 was 158.6 (1983=100), which is 3.3% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through November 1996.



### Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1996, through December 31, 1996, in millions of dollars						FY 96 Actual Compared to FY 97 REC Estimate			
	FY 1996		FY 1997		Year to Date	December	Actual	Estimate	% CHANGE
	\$		\$		% CHANGE	% CHANGE	FY 1996	FY 1997	% CHANGE
Personal Income Tax	846.9		901.7		6.5%	19.3%	\$ 2,000.9	\$ 2,109.0	5.4%
Sales Tax	618.1		633.2		2.4%	8.0%	1,213.0	1,275.0	5.1%
Use Tax	101.4		110.3		8.8%	21.4%	207.8	224.5	8.0%
Corporate Income Tax	115.0		132.2		14.9%	34.3%	277.6	294.4	6.1%
Inheritance Tax	46.4		55.4		19.3%	24.9%	95.9	108.0	12.6%
Insurance Premium Tax	0.1		0.1		-9.0%	11.0%	104.3	107.0	2.6%
Cigarette Tax	47.0		48.4		2.9%	17.8%	94.1	95.0	1.0%
Tobacco Tax	2.7		2.9		8.3%	0.4%	5.3	5.5	3.8%
Beer Tax	6.6		6.6		0.1%	-3.2%	12.6	12.5	-0.8%
Franchise Tax	12.3		15.9		29.6%	37.3%	26.5	30.0	13.2%
Miscellaneous Tax	3.6		1.1		-69.7%	-107.3%	0.9	0.9	0.0%
Total Special Taxes	\$ 1,800.1		\$ 1,907.7		6.0%	15.1%	\$ 4,038.9	\$ 4,261.8	5.5%
Institutional Payments	51.1		51.5		0.8%	-7.7%	105.0	104.7	-0.3%
Liquor Transfers:									
Profits	13.0		14.5		11.5%	0.0%	29.0	29.0	0.0%
7% Gross Revenue	4.5		4.5		0.0%	0.0%	9.0	9.0	0.0%
Interest	10.7		8.4		-21.6%	-23.2%	13.5	13.0	-3.7%
Fees	28.1		29.2		3.6%	-25.4%	61.7	62.6	1.5%
Judicial Revenue	17.4		15.8		-9.3%	-83.1%	40.0	40.1	0.2%
Miscellaneous Receipts	29.2		34.2		17.3%	67.7%	49.5	46.8	-5.5%
Racing and Gaming Receipts	44.8		56.9		27.0%	42.7%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$ 1,998.8		\$ 2,122.5		6.2%	12.2%	\$ 4,406.6	\$ 4,627.0	5.0%